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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON REGIONAL OFFICE
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FALLS CHURCH, VIRGINIA 22046

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JUL 9 1975

Mr. Victor H. Indiek, President
Federal Home Loan Mortgage Corporation
311 First Street, NW.
Washington, D.C. 20001

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Dear Mr. Indiek:

We recently completed our examination of the Federal Home Loan Mortgage Corporation's 1975 financial statements and thought it would be useful to summarize for your consideration certain matters developed during the audit which will not be included in our report to the Congress.

These matters did not affect our opinion on the financial statements and are presented to provide constructive ideas for improving internal accounting controls and operational efficiency. They were discussed with Corporate officials and, where appropriate, their views have been incorporated into our comments.

Opportunity to improve internal
control over payment documents

Good internal control dictates that vouchers, invoices, and other supporting documents be canceled after payment.

At present, the Mortgage Corporation is stamping these documents during the auditing process before payment. The stamp designates spaces for payment approval and expense distribution, but no space to indicate that the bill was paid. After payment, a carbon copy of the check, invoice, and all supporting documents are stapled together. The only indication that the bill has been paid is the carbon copy of the check. If the carbon copy of the check is removed or lost, a duplicate payment can result.

We were informed by Corporate officials that all checks and vouchers are date stamped when microfilmed and this prevents reuse. We noted, however, that

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this stamp only indicates the microfilming date and not all supporting documents are stamped. Furthermore, not all of the officials responsible for signing checks were aware that the date stamp represented a cancellation.

We suggest that all the documents be perforated "Paid" prior to filing. Our sample of disbursement transactions disclosed no duplicate payments; however, this procedure will increase internal control by precluding resubmission of invoices for duplicate payment.

Capitalization of fixed assets

The fixed assets of the Mortgage Corporation consist primarily of office furniture, fixtures, and office machines. The accounting policy specifies that equipment costing \$100 or more be capitalized and depreciated, and that supplies and equipment under \$100 be expensed in the period acquired. The Corporation maintains detailed fixed asset cards for each piece of capitalized furniture and equipment.

A sample of five selected furniture, fixtures, and equipment transactions revealed that in two instances the capitalized cost of equipment included related supplies. When these supplies are capitalized, the expense is deferred until the underlying asset is depreciated.

We suggest that you reemphasize the importance of complying with the Mortgage Corporation's accounting policy for supplies and equipment to insure proper accounting treatment and classification of these items.

Compliance with policy manual in: approving journal vouchers

The Mortgage Corporation Policy and Procedures Manual specifies that journal entries should be prepared, clerically checked, and approved before processing. The manual illustrates the standard journal vouchers and identifies the person responsible for preparing each entry, and the individual who has authority for approving each entry.

While reviewing journal vouchers, we noticed that some entries had been both prepared and approved by the same individual, while others had been prepared with no approval designated. None of the journal entries we reviewed had evidence that a clerical check was performed. The failure to follow the corporate procedures could lead to an erroneous recording and/or misclassification of entries in the general ledger.

We recommend that corporate procedures be followed in that journal entries be clerically checked and approved by a person other than the preparer.

Need to review investment resolution

The Mortgage Corporation's investment policy resolution adopted by the Board of Directors in 1971, established the types of securities that the Corporation can purchase and the individuals authorized to implement the policy. In addition, the resolution requires that the policy be periodically updated and reviewed by the Board.

During our review we noted that certain individuals authorized in the resolution to execute securities transactions are no longer functioning in this capacity.

To ensure that the Corporation's assets are properly managed and the intent of the Board is being fulfilled, we suggest that the investment resolution be periodically updated and reviewed by the Board.

We wish to express our appreciation for the courtesies extended to our representatives throughout our examination. If you have any questions on the above matters or if we can provide further information, please let us know.

Sincerely,



David P. Sorando
Regional Manager